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SIPDIS

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SUBJECT: NETHERLANDS: MODEST THIRD STIMULUS AND SAVINGS PACKAGE

Ref: (A) THE HAGUE 197, (B) THE HAGUE 62, (C) 08 THE HAGUE 981

THE HAGUE 00000221 001.2 OF 002

¶1. SUMMARY: On March 25, the government presented another stimulus and savings package to stimulate employment and sustainable economic growth in the short term, while ensuring stable government finances in the medium and long term. The latest stimulus measures total 6.5 billion euro. Together with two earlier packages (refs A and B), the value of Dutch stimulus measures to date totals approximately 2 percent of Dutch GDP. END SUMMARY.

Stimulus for 2009 and 2010, savings starting 2011

¶2. In 2009 and 2010, the Government of the Netherlands (GONL) intends to invest 6.5 billion euro to stimulate the economy, with an additional 1.5 billion in supplemental spending by provincial and municipal governments. The GONL is also counting its decision not to cut public spending on unemployment and other benefits as further stimulus worth another 9.4 billion euro. The first stimulus package was worth approximately 6 billion euro, while the second consisted mainly of government guarantees to stimulate lending and exports. To date, the national government's new money for stimulus measures totals about 2 percent of GDP.

¶3. The stimulus measures have four goals: (amounts in euro)
-- investing in education, knowledge and employment, especially combating youth unemployment (709 million in 2009 and 1.05 billion in 2010);
-- investing in a clean and innovative economy, including subsidies for insulating houses, 'scrap' subsidy for old vans, and off-shore wind energy projects (621 million in 2009 and 606 million in 2010);
-- bringing forward investments in infrastructure and construction, including building and repairing schools, health care institutions, and roads as well as water management projects (724 million in 2009 and 1.09 billion in 2010);
-- increasing liquidity for businesses, including abolition of the aviation tax, but only if Schiphol airport also decreases its own costs (677 million in 2009 and 464 million in 2010) (Ref C).

¶4. In announcing these most recent measures, Prime Minister Balkenende said that to counter the rapidly deteriorating budget (from 1 percent surplus in 2008 to 5.7 percent deficit in 2010), the government has proposed a law that would require national budget savings of at least 0.5 percent of GDP per year as of 2011. The exact nature of these measures is still unclear, but they could include:

-- raising the pension age to 67 years
-- obtaining savings in health care sector (including lower health care subsidies)
-- increasing property tax for houses worth more than 1 million

euro

¶5. The package's most important and 'controversial' proposal is increasing the eligibility age for qualifying for the state pension system from 65 to 67 years. Balkenende noted that the government had chosen this measure in order to advance greater labor participation and improve the long-term financial position of both the government and the pension funds. The increase is expected to be implemented gradually. Since the country's largest labor federation (FNV) strongly objects to the planned increase, the government agreed to give the tri-partite Social and Economic Council (SER) the opportunity to devise viable alternatives by October 1, provided they yield as much savings as the proposed measure. Balkenende stated the SER would have a free hand in suggesting alternatives, which his cabinet would take under serious consideration. In the end, however, the GONL will raise the retirement age if it believes it must be done, especially given the broad support the proposal has in the Dutch parliament.

COMMENT

¶6. The fact that the three coalition parties after weeks of negotiations succeeded in agreeing on a crisis package has consolidated the cabinet's position. The proposed package is probably as much as the Dutch government could be expected to do. By itself, there is little the Netherlands can do to change the crisis. With its open economy, the Netherlands stands to gain far more from a recovery of world trade than from its own stimulus measures. Preventing countries from resorting to protectionist measures is viewed as more important (and effective) for Dutch economic recovery than domestic stimulus. With its latest package, the GONL has tried to maintain the general public's purchasing power, thereby encouraging the thrifty Dutch to spend. End

THE HAGUE 00000221 002.2 OF 002

comment.

GALLAGHER